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TO RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 2062  
RUEHC/SECSTATE WASHDC PRIORITY 3404  
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 2789  
RUEHRL/AMEMBASSY BERLIN PRIORITY 1376  
RUEHBUL/AMEMBASSY KABUL PRIORITY 0559  
RUEHLO/AMEMBASSY LONDON PRIORITY 2014  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 8482  
RUEHOT/AMEMBASSY OTTAWA PRIORITY 9631  
RUEHFR/AMEMBASSY PARIS PRIORITY 6048  
RUEHRO/AMEMBASSY ROME PRIORITY 2072  
RUEHFK/AMCONSUL FUKUOKA PRIORITY 7243  
RUEHNH/AMCONSUL NAHA PRIORITY 9621  
RUEHOK/AMCONSUL OSAKA KOBE PRIORITY 0914  
RUEHKSO/AMCONSUL SAPPORO PRIORITY 7837  
RUCNDT/USMISSION USUN NEW YORK PRIORITY 9334  
RUEHGV/USMISSION GENEVA PRIORITY 3291  
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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 001009

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STATE FOR S/P, EAP/J, EEB/ODF AND F  
STATE PASS USAID/ODP FOR NICHOLSON

E.O. 12958: DECL: 04/09/2018

TAGS: PREL PGOV EAID PK JA  
SUBJECT: JAPAN'S ASSISTANCE TO PAKISTAN SHIFTING FROM  
GRANTS TO LOANS

REF: A. STATE 29860  
B. TOKYO 5268

Classified By: Charge W. Michael Meserve for reasons 1.4 (b/d)

¶1. (SBU) Summary: The GOJ's initial estimates indicate Japanese grant aid and technical assistance to Pakistan in FY 2007 declined from the 2006 total of JPY 7.7 billion (\$75.7 million) in funding, according to an official in the Ministry of Foreign Affairs (MOFA). Yen loan assistance, however, more than doubled to JPY 479 billion (\$4.7 billion), the official said. While Japan cooperates with the U.S. in building schools in the Federally Administered Tribal Areas (FATA), most other aid is provided bilaterally. Although Japan's fiscal situation could portend further declines in grant aid, additional yen loans remain a distinct possibility as long as Pakistan can convince the GOJ of its credit worthiness. End Summary.

¶2. (SBU) Japan has high hopes Pakistan's newly elected government will bring stability and economic growth to the country, MOFA First Country Assistance Planning Division Deputy Director Hitomi Sato told Econoff April 9. According to a written summary on GOJ development efforts in Pakistan provided econoff, Japan's goal is to contribute to help consolidate peace and stability throughout Asia, and see Pakistan as having a critical role in the fight against terror. Japan's Country Assistance Program strategy, formulated in 2006, focuses on three priorities: ensuring human security and human development through education and health programs; developing a sound market economy through agricultural and infrastructure assistance; and achieving more regionally balanced socio-economic development. Sato said Japan reviews its Country Assistance Programs once every five years.

¶3. (C) Sato stated exact figures for development assistance for FY 2007 will not be available until July. She estimated grants and technical assistance fell slightly from 2006 levels at which time Japan provided JPY 7.7 billion (\$75.7

million) in funding. Yen loans, however, have more than doubled to JPY 479 billion (\$4.7 billion). Sato cautioned that while Japan had pledged the full JPY 479 billion, the GOJ did not actually disburse any of the funds in FY 2007. She explained the Japanese government "quietly" withheld the loans as a way to "encourage" the Musharraf government to hold fair and democratic elections. "Maybe that helped," she commented. Japan has not provided any debt relief to Pakistan since the 1990s.

¶4. (SBU) The GOJ has a wide variety of programming in Pakistan. Sato gave various examples as listed below (Note: this list is not comprehensive).

#### Education

- - Built eight schools in the FATA in cooperation with the U.S. and another 35 schools are under construction. The GOJ has given an additional \$4.4 million in counterpart funding to increase the total number to 65 schools.
  - Provided a scholarship fund of \$6 million to a program initiated by USAID to allow 90 students to attend university in Pakistan for 3 years. Sato noted 10 percent of this funding is designated for students from the FATA, but none have yet applied.
  - Exchanged notes to provide \$68 million in non-project grant aid to purchase equipment for educational purposes in the FATA. Sato was uncertain as to the kind of equipment this was earmarked for, but stated some of the aid would be "tied" to purchases from Japan.

#### Health Programs

TOKYO 00001009 002 OF 002

- - Provided grass roots funding of \$59,000 to NGOs and local governments for 18 projects related to drinking water, sanitation, and first aid facilities.
  - Provided vaccinations in the FATA through the UN Children's Fund.
  - Delivered food for a maternal health clinic through the World Food Program.

#### Infrastructure

- - Approved yen loans to build power plants, irrigation systems, rural roads, and national highway 70.
  - Gave grant aid to improve the Kararo-Wadh section of national highway 25.

#### Technical Assistance and Capacity Building

- - Provided vocational training at the Construction Machinery Training Institute and the Pakistan Industrial Technical Assistance Center through the Japan International Cooperation Agency (JICA).
  - In 2006, JICA received 4,539 Pakistani trainees in Japan and dispatched 1,052 experts to Pakistan (2007 numbers not yet available).

¶5. (SBU) With the exceptions noted above, Japan provides most of assistance on a bilateral basis. Japan works closely with the U.S. on certain projects, but does little with other countries. Japan does participate in coordination meetings among donors to Pakistan.

#### Comment

- - ¶6. (SBU) Japan's grant aid dropped nearly 40 percent over the last 11 years, though yen loans have steadily increased, largely offsetting this decline. According to an OECD report released April 7, Japan now ranks fifth in ODA disbursements, down from third in 2006. While the Foreign Minister has vowed to reverse this trend, it is unclear whether he will be able to do so in light of Japan's difficult fiscal situation. Consequently, Japan may not be able to increase its grant

aid or technical assistance commitments to Pakistan in the foreseeable future. Nevertheless, additional concessional lending may be a possibility if Pakistan's new government can persuade Japanese officials of the country's creditworthiness.

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